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November 12, 2009

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Via email: regs.comments@federalreserve.gov

Re: Docket No. R-1370

Dear Ms. Johnson:

Our credit union is a member of PSCU Financial Services, Inc. ("PSCU"). We believe credit unions that offer credit card programs continue to provide their members with very consumer-friendly policies. Several proposed TILA regulations could inhibit such consumer-friendly policies. We are pleased to provide the Board of Governors with comments in response to the Board's October publication of proposed TILA regulations.

Effective Date

The Board has requested comment on whether the original mandatory compliance date for certain regulations of July 1, 2010 would be appropriate. We believe that it would be a colossal mistake to accelerate the July 1, 2010 date for all Regulation Z provisions not covered by the CARD Act.

We believe retaining a July 1, 2010 effective date is appropriate for:

- a) Portions of the periodic statement under § 226.7(b)(3);
- b) Disclosures provided with checks that access a credit card account under § 226.9(b)(3);
- c) change-in-terms notices provided pursuant to § 226.9(c)(2); and
- d) Notices of a rate increase due to a consumer's default, delinquency, or as a penalty pursuant to § 226.9(g).

As you know, the July 1 requirements are preceded by a series of new requirements including the August 20, 2009 requirements and the February 22, 2010 requirements. We, PSCU and processor have devoted substantial time and resources to be able to meet the August and February requirements. In fact, PSCU has just begun testing this month some newly available functionality developed by our processor to support some of the upcoming February requirements. For the majority of the February requirements, PSCU will only have thirty days to test and implement new functionality for hundreds of issuers. PSCU anticipates being able to meet the compressed timeframe for the February requirements because those requirements are mostly met through system development and programming, without detailed implementation of settings for each individual issuer.

The substantial work remaining to meet the February requirements simply does not allow time to accelerate the July requirements. Moreover, we do not yet have the functionality to test the July requirements and we do not expect to receive all of the developed functionality until April/May 2010. That functionality is very complex and takes many months to design, program, test and implement. In addition, it is extremely difficult to accelerate the July requirements because individual credit card statements are highly customized by issuers. Much of the functionality cannot be supported globally; instead, we will need to implement in far smaller increments, i.e. by issuer. In order for PSCU to offer credit unions with required functionality that is implemented in a way that supports compliance for their particular credit card program, they need all the time a July 1, 2010 the effective date allows. The details to support compliance with the July requirements would make it virtually impossible to meet a more compressed schedule.

Given the extensive other changes that issuers and processors are addressing including the February requirements, and the detailed nature of the July requirements, we strongly believe that the original date of July 1, 2010 continues to be most viable date. Accelerating the date would not allow issuers sufficient time to test the new functionalities, which would likely cause major issues among millions of consumers.

Proposed 226.54 - Partial Grace Period

With the October proposed regulations, we understand that issuers will have to be very careful with their disclosure language to limit partial grace to the month of transition from transactor (a consumer who pays the balance in full each month) to revolver (a consumer who does not). In the billing period after an account becomes revolving, all purchases would be subject to a finance charge until and unless the balance is paid in full.

We are requesting the Board issue guidance on how issuers can comply with this disclosure requirement by February 2010. In the regulations [issued] on December 18, 2008, under "How to Avoid Paying Interest", the Board discussed the difficulty consumers have in understanding what "grace period" means. Sample language offered by the Board was based on extensive consumer surveys and that language read as follows:

"Your due date is [at least] _____ days after the close of each billing cycle. We will not charge you interest on purchases if you pay your entire balance by the due date each month."

The new Partial Grace requirement provides:

"The Board proposes to implement this prohibition in proposed §226.54(a)(1)(ii), which states that, except as provided in proposed §226.54(b), a card issuer must not impose finance charges as a result of the loss of a grace period on a credit card account if those finance charges are based on any portion of a balance subject to a grace period that was repaid prior to the expiration of the grace period."

We have difficulty adapting the Board's sample language (from the December 18th Regulations) with the new Partial Grace Period requirement into a clear and simple disclosure that consumers can easily understand. We do not believe, absent sample language from the Board, that we can develop a disclosure that clearly and simply explains to a consumer how the Average Daily Balance calculation will be made.

Due to the difficulty in developing a new clear and simple disclosure, we respectfully request that the Board provide model language when the October regulations are made final. Absent the Board offering model language, we respectfully request that the Board consider postponing the disclosure portion of the partial grace February requirement (if not postponing the calculation requirement itself) until model language can be provided by the Board, and issuers have time to implement it, but in no event later than July 1, 2010.

51(a) General Ability to Pay

Our credit union believes that consumer protection does not require that issuers verify information before a credit card account is opened or a credit line is increased. The new regulations restricting issuers' ability to increase interest rates, combined with the regulations on minimum payment calculation and payment allocation, will provide consumers with sufficient protections to help them understand the cost of the credit they have obtained. We believe the regulations should be revised regarding credit line increases.

Our credit union recognizes the Board's position that issuers should use good judgment in allotting credit extensions. However, a significant part of managing a card portfolio includes making credit line adjustments. Normally, an issuer will target accounts through a qualification using credit bureau score and past performance to warrant a credit line increase ("targeted line increase"). Those periodic increases have allowed credit unions, who are often conservative in establishing original credit limits, to raise a credit line as the account matures. This targeted line increase can encourage the long term retention of the account by the consumer who otherwise might receive the larger credit line offer from another issuer and obtain credit elsewhere. Under the proposed regulation, the credit union is penalized for its conservative lending practice because it has lost its ability to raise the credit line as the consumer has demonstrated the ability to responsibly handle it.

If income and assets are required to be a part of the decision, an issuer would not have access to that information without input from the consumer. We believe the net effect of requiring income verification from the consumer prohibits the issuer from raising credit limits without the consumer initiating the request. Rather than restricting all credit line increases, we believe that increases are a legitimate part of a credit relationship over time and often needed by consumers. Our credit union proposes an alternative to requiring the verification of income by the consumer in order to increase credit lines. In this alternative, after a targeted line increase, the issuer notifies the consumer of the additional credit available. The consumer has 15 days to opt-out of the credit line increase. We have experienced a 97% acceptance rate by consumers to this approach that is done without income verification today. Another alternative the Board could adopt instead is to allow an issuer to make credit line increases effective only after the consumer has opted-in.

Requiring income verification will cause a significant detrimental impact to consumers - - balance transfers will be inhibited. Suppose a consumer has a credit union credit card at 10% APR, but has used a commercial bank's credit card (with an 18% APR) to obtain rewards points. The consumer may qualify for more credit with the credit union's card but they will not do a balance transfer to the lower rate because they do not believe they have the credit available. Consumers may initiate a balance transfer request if they know they have the available credit, but they are less likely to ask for a credit line increase and wait for that to be processed and approved in order to transfer a balance. Again, we propose the issuer be allowed to utilize the targeted line increase, and then to offer the balance transfer promotion to those qualifying consumers. Without the issuer's ability to increase the credit line

(without requiring income verification), the qualifying consumer will have missed the balance transfer offer.

Finally, under the proposed regulation, if a consumer requested an increase in credit, the issuer would have to build the process of debt ratio underwriting since it does not exist today. Issuers will be required to build new systems for Web, call center, and branch on-demand requests for line increases. Any such requirement would increase issuers' costs, and such increased costs would ultimately be passed on to consumers, far outweighing any perceived benefits to consumers.

If the Board remains unconvinced that credit line increases in the above scenarios should continue to be an issuer-initiated tool, we propose an exception for any increase of \$500 or less, so long as only one increase is done in a twelve month period. Many consumers do not understand the process of requesting a line increase or are intimidated by the process. For that reason, an issuer offering small line increases would likely extend credit to consumers who need the increased credit but would not have asked on their own. Also, by not being able to rely on more readily available empirical data, it limits the issuer's ability to offer consumers more credit when they qualify for it. That would be detrimental to many consumers who are eligible for and have earned a higher credit line than the line that was offered them in the conservative early period of account opening.

Continuing Application of 226.55
Proposed 226.55(d)(2)

Our credit union believes proposed regulation 226.55(d)(2) is needed by consumers. The Board has asked if the acquisition of accounts should be treated as a continuation of the existing account relationship. In the absence of proposed 226.55(d)(2), allowing the buyer to purchase and subsequently reprice a credit card portfolio would allow large banks in particular to continue to actively buy and sell credit card assets with the single intent of repricing upward. In not regulating this practice, the Board would continue permitting any issuer to simply sell their credit card asset whenever the pricing or risk became uncomfortable. Issuers would focus strictly on their short term financial results to the detriment of consumers. Even where consumers can opt-out of the higher rate, they would need to seek additional extensions of credit elsewhere. Without the protections of proposed 226.55(d)(2), consumers' would likely experience an increase in APRs in the marketplace and a reduction in long term credit account relationships that benefit the consumer's creditworthiness rating.

58(e) De Minimis Exception

The Board has requested comment on the open account threshold of 10,000 for the de minimis exception.

We believe the de minimis exception should be set at issuers with 25,000 open accounts. PSCU supports a number of credit unions, many with smaller credit card portfolios. Many of those credit unions simply do not have excess staff to monitor or update the Board's website. This requirement would be a burden on smaller credit unions with less than 25,000 accounts, many of whom have only tens of employees. These credit unions can encourage their members to look to their website, not the Board's website, for information and assistance for account information. We respectfully submit that issuers with less than 25,000 accounts have historically not abused consumers like some large issuers

have done, and that therefore a threshold of 25,000 will have little to no impact on consumer protections.

56(i)(2) Failure to Promptly Replenish

The Board has requested comment regarding whether the rule should provide a “safe harbor” specifying the number of days following crediting of a consumer’s payment by which a creditor must replenish a consumer’s available credit. We believe the opt-in requirement plus the added protection of limits on the number of overlimit fees per statement and in consecutive months are sufficient protections for consumers. The additional burden of having to meet a “promptness” requirement isn’t needed.

Moreover, limiting overlimit fees, as the Board has done, does strike a balance between supporting the issuer’s ability to manage its program and helping consumers. This regulation only impacts fees. Having a credit line exposure requirement is different because it isn’t just impacting fees, it’s impacting the issuer’s credit risk. For one payment, it’s not a \$20 fee that is lost, it could be thousands of dollars. Regulating promptness will regulate issuer’s credit risk, which should instead be left to issuers to manage.

Each issuer should have the discretion to determine the length of time to promptly replenish an account and may continue to do so as requested by the consumer, based on the credit union’s credit history with that consumer. Current functionality exists, but is not commonly used, to set a payment float period that includes payments above a specific dollar threshold. Once a payment is received, finance charges stop on that part of the balance that has been paid but the credit line isn’t immediately replenished. This is an issuer’s protection from credit risk.

By issuing a “safe harbor”, individuals with intent to defraud can still manipulate, say, a three day window prior to a payment made with bad funds being returned. Thus, we believe issuers should retain control over when to promptly replenish available credit, based on the account history and fraud management tools.

If the Board, nonetheless, does think a “safe harbor” is needed to ensure the fullest consumer protection, we can offer a standard we use that was included in an earlier comment letter from PSCU. PSCU’s CUs usually issue credit on the account three days after a payment by check is made. Our experience has shown that replenishing the credit any sooner exposes our CUs to much higher check-kiting and fraud losses. We have not found that accepting payments past the due date but before the cycle date has a negative impact on consumer’s availability of credit. Another alternative could be to define promptness as one day after payment is made, except for large dollar amounts as determined in the issuer’s reasonable discretion, which would be subject to a three day timeframe for crediting.

Promotional rates

Our credit union requests that the Board clarify the start date for the requirement that promotional rates be offered for a minimum of six months. We believe that the 6-month minimum period should start on the date the promotional program is first offered to the consumer. Any other date (e.g. the date of the first transaction under the program or the individual dates of each transaction) would be very difficult if not impossible to track.

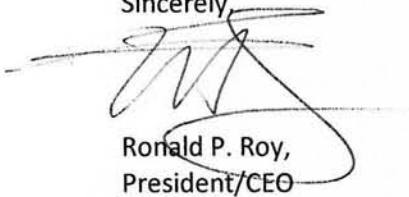
Completion of over-the-limit transactions without consumer consent

Section 102—Form G-25(A)

Summary

Our credit union appreciates this opportunity to submit comments on the Board's proposed changes to Reg Z.

Sincerely,

A handwritten signature in black ink, appearing to be 'R. Roy', with a large, sweeping loop at the end.

Ronald P. Roy,
President/CEO